



2003 Annual Report

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Kentucky Cabinet for Economic Development at A Glance

The **Kentucky Cabinet for Economic Development (KCED)** is the primary state agency in Kentucky responsible for creating new jobs and new investment in the state. Programs administered by the Cabinet are designed to support and promote economic development within the state primarily through attracting new industries to the state, assisting in the development of existing industries, encouraging the formation of new businesses and assisting communities in preparing for economic development opportunities. The Cabinet consists of the seven offices and departments, as follows:

Office of the Secretary	Office of the New Economy
Department for Regional Development	Department for Business Development
Department of Financial Incentives	Department of Community Development
Department of Administration and Support	

Kentucky Economic Development Partnership Board

The Cabinet is governed by the Kentucky Economic Development Partnership. The Partnership is composed of 11 voting and 2 nonvoting members. Eight private sector members appointed by the Governor represent each of the state's six congressional districts with two at-large members. The secretaries of four Cabinets- Economic Development, Finance and Administration, Environmental and Public Protection and the Commerce Cabinet serve as public sector, ex-officio members. The secretaries of Economic Development and Commerce are non-voting members. The Governor serves as chairman of the Partnership.

Governor Ernie Fletcher, Chairman of Partnership

Commonwealth of Kentucky

Luther Deaton, Jr., Vice Chairman of Partnership

President and CEO
Central Bank and Trust Company

Nelda Barton-Collings

Michael L. Dixon
Business Manager
Plumbers & Steamfitters Local 248

William F. Dohn
Dohn & Dohn Gardens

Secretary W. James Host
Commerce Cabinet

William J. Jones
Division Manager
U.S. Bank

Linda S. McGinnis
President and CEO
Appalachian Regional Manufacturing, Inc.

Secretary R. B. Rudolph, Jr.
Finance and Administration Cabinet

Secretary Marvin E. Strong, Jr.
Cabinet for Economic Development

Jean M. Wells
Vice President
Wells Health Systems

Secretary LaJuana Wilcher
Environmental and Public Protection Cabinet

Sandra B. Wood
President
McLean County Industrial Foundation

Secretary's Comments

It is an honor to present the Cabinet for Economic Development's 2003 Annual Report. The list of advantages our state offers as a superior business location and place to live continues to grow, as so many of our business leaders will attest. With the lowest electric rates in the U.S., a skilled workforce, central location, and a superior transportation infrastructure Kentucky is one of the best places for companies to locate and expand to serve a worldwide customer base.

Kentucky's pro-business environment and dedicated efforts of Cabinet staff and our economic development partners are reflected in the many high rankings and accolades of economic development publications and the companies that locate and expand businesses in the state. In fact Kentucky tied for 12th in the 2003 Top 25 State Business Climate Rankings by Site Selection magazine (November 2003).

Kentucky ranked 10th in the 2003 Site Selection Governor's Cup awarded annually to U.S. states with the most new and expanded facilities, and was the smallest population state on the top 10 list. Kentucky also ranked as having the 19th largest U.S. corporate project by facility size with the announcement of the Cosma (Division of Magna Corporation) auto parts plant in Bowling Green.

Kentucky has positioned itself to be a 21st century leader in global transportation opportunities as our state's reputation as a great business location for transportation and access becomes stronger all the time. Republic Airlines, one of the nation's newest regional airlines announced its decision to establish its corporate headquarters at the Louisville International Airport. FedEx Ground announced plans for a distribution facility in Boone County.

Four international representative offices in Japan, Belgium, Mexico, and Chile give Kentucky a solid presence in the global economy. Foreign investment in Kentucky is growing at a faster rate than in the U.S. in general. Our long-standing relationships with many Japanese companies have resulted in an average of 6-10 announcements yearly of Japanese investment in Kentucky. In 2003, with announcements from Kobe Steel, Toyodabo, Kyosan DENSO, Ritatsu and others we continue to forge bonds with many companies in Japan. Kentucky also had the 3rd largest increase in exports from 2001 to 2002 of all 50 states at 17.23%. Kentucky exported over \$10.6 billion worth of goods, ranking Kentucky 10th of all states in exports per capita.

Kentucky is squarely in the middle of "auto alley" - ranking 4th in the country in total light vehicle production. Three of the top 10 cars and trucks in U.S. production and the premiere American sports car - the Corvette-are made in Kentucky. The state is the 4th largest producer of trucks in the U.S. and 4th largest producer of cars and 10.2% of all cars/trucks produced in the U.S. are made in Kentucky. Kentucky produces the number 2-selling car in America (Georgetown – Toyota Camry) and the top selling truck in the World (Ford-F series – Louisville) and the 3rd best selling truck in the U.S. (Louisville – Ford Explorer). (Source: Automotive News 2002 Market Data Book)

Our many successes in Kentucky are grounded in our partnerships with our communities, our existing businesses, our community and technical college system, our regional and local economic developers and with our citizens. Our quality of life in Kentucky is second to none and will only get better as our diverse strengths from horses to horsepower continue to grow.

Sincerely,

Marvin E. Strong, Jr., Secretary

2003 Governor's Leadership Awards

Three distinguished Kentuckians received the Governor's Economic Development Leadership Award in 2003. The awards recognize those individuals in Kentucky who volunteer their time and resources for economic development. They are designed to honor those whose vision and leadership have been instrumental in creating jobs and improving Kentucky's local, regional and statewide economy. Congratulations to the following recipients of the 2003 Governor's Leadership Awards:

Dennis B. Griffin

Cold Spring

Chairman

Griffin Industries, Inc.

David W. Holland

Hickman

Chairman

Citizens Bank of Hickman

William A. Stinnett, III

Bellefonte

Chairman

Fifth Third Bank Ohio Valley

Office of the Secretary

The Office of the Secretary is responsible for the development and administration of the policies and overall management of the Cabinet for Economic Development. Staff and administrative functions within the Office of the Secretary include General Counsel, Communication Services, Advertising, Special Projects, Legislation and Budget. The Secretary serves as Chief Executive Officer for the Cabinet and is responsible for day to day activities, carries out policy and program directives of the Partnership, and coordinates Cabinet programs with other state government economic development programs.

Key Economic Development Rankings for 2003

Kentucky's economic development success is evidenced in the following rankings and accomplishments:

- Kentucky ranked 10th in the 2003 *Site Selection* Governor's Cup awarded annually to U.S. states with the most new and expanded facilities. Kentucky has the smallest population of any of the states on the top 10 list. (*Site Selection*, March 2004)
- Kentucky ranked as having the 19th largest U.S. corporate project by facility size with the announcement of the Cosma (Division of Magna Corporation) auto parts plant in Bowling Green. (*Site Selection*, March 2004)
- Kentucky ranked tied for 9th for *Site Selection's* States with the Most Metros in the Top 100 with 4 metros. (*Site Selection*, March 2004)
- Kentucky ranked as having the 3rd Largest Plastics & Rubber Products project by investment, with the announcement of a \$78 million investment by Plastech Exterior Systems in Louisville. (*Site Selection*, March 2004)
- Kentucky ranked as having the Largest Fabricated Metal Products project by investment with the announcement of a \$35 million investment by Kobe Steel Ltd. in Bowling Green. (*Site Selection*, March 2004)
- Twelve Kentucky communities ranked in *Site Selection 2003's Top U.S. Small Towns* for corporate expansion, according to their March 2004 issue. The communities are Bowling Green (3), Frankfort (21), Bardstown (26), Elizabethtown (26), Franklin (26), Paducah (37), Corbin (55), Shelbyville (55), Danville (74), Lebanon (74), Madisonville (74), and Springfield (74).
- Kentucky ranked 3rd for 2003 State Count of Towns in the Top 100 with 12 towns, in *Site Selection* magazine's March 2004 issue.
- The January 2004 issue of *Plant, Sites and Parks* magazine ranked Kentucky 6th in the Readers' Survey, which looks at where executives at growing companies are thinking about locating their next office or industrial facility. Kentucky also ranked 6th in the magazine's Bizsites Survey, which examines where companies have actually located. Kentucky is the second-smallest state on either ranking.

- Kentucky ranked 4th in the U.S. and 5th in North America for automotive production for 2003 with 1,164,931 vehicles produced according to WardsAuto.com.
- *Business Facilities* December 2003 issue listed Plastech Exterior Systems facility in Louisville, Kentucky as one of the top 15 largest expansions for 2003 with an investment over \$78 million and 425 new jobs created.
- The November 2003 issue of *Site Selection* included a listing of Top 20 Food Processing Projects of 2003. Kentucky had three projects in the Top 20: Mother's Cookie Company in Louisville was 10th, Martek Biosciences Corp. in Winchester was 11th and T. Marzetti Company in Horse Cave was 17th.
- *Expansion Management* magazine's October 2003 issue ranked Kentucky's Workforce Training Programs, which includes the Bluegrass State Skills Corporation (BSSC) 8th in the nation. In December 2003, the Bluegrass State Skills Corporation received the annual Commissioner's Partnership Award from the Education Cabinet's Department for Technical Education.
- *MuniNet Guide & Review* ranked the Kentucky Cabinet for Economic Development's web site as one of the top 10 best economic development web sites in the country and 4th best among state economic development web sites.
- Louisville ranked 2nd and Cincinnati/Northern Kentucky ranked 7th for Logistics Cities in the Midwest as reported in *Expansion Management*, August 2003.
- In the *Forbes* magazine 2003 rankings for the Best Places For Business and Careers, Lexington ranked 14th and Louisville ranked 71st among the 150 largest metro areas.
- *Expansion Management* (July 2003) placed Lexington among their Top 10 finishers in the Mayor's Cup. Lexington ranked 7th out of 329 MSAs across the country for best locations for a company. The Cincinnati area, including Northern Kentucky, ranked 15th and Louisville ranked 22nd.
- The Annual Logistics Quotient ranking of most logistics friendly cities in the U.S. ranked Louisville 2nd in terms of industry climate as published in the September 2003 issue of *Expansion Management*.
- Louisville ranked 43rd in *Expansion Management's* list of "America's 50 Hottest Cities for Manufacturing Expansions and Relocations" in their January 2003 issue.
- Louisville ranked 15th in the list of the top 25 best cities for entrepreneurs and 1st as the best city for small-business growth in the October 2003 issue of *Entrepreneur*.

Office for the New Economy (ONE)

House Bill 572, the *Kentucky Innovation Act of 2000*, established the Office for the New Economy (ONE). ONE's mission is to foster innovation and a thriving entrepreneurial culture so that Kentuckians are positioned to profitably participate in the 21st Century economy. To achieve its mission, ONE will:

- Build and sustain a strong research and development capacity at Kentucky's universities and in the private sector.
- Create and maintain a thriving entrepreneurial climate supported by programs that inspire and facilitate the commercialization of ideas; and
- Foster and retain a highly motivated, well-educated workforce that can participate and prosper in the New Economy.

New Economy Projects for 2003

Cardiovascular Innovation Institute - Cardiovascular Innovation Institute, including a large animal facility is a partnership between the University of Louisville, Jewish Hospital, and the Commonwealth of Kentucky. The Institute will focus on the development and evaluation of candidate cardiac assist devices such as artificial organs and Ventricular Assist Devices (VAD's), tissue engineering to repair damaged hearts, and genetic interventions to prevent heart damage. To meet the demands of the Institute, the Research Resources Center (RRC), which provides research animal services to University-sponsored activities, must be expanded to include new surgical and procedural support space. This project is for funding the construction of the RRC. The RRC will include large animal operating rooms, pre- and post- operative support, and diagnostic equipment and instrumentation. KEDFA's funding of this project for 2003 is \$2,533,000.

Connectkentucky and CITE projects – **Connectkentucky** is a public private partnership between the Office of the New Economy (ONE), private individuals, state universities, and the Center for Information Technology Enterprise, Inc. (CITE). **Connectkentucky** helps business, government and education clients identify, understand, and implement IT opportunities that increase efficiency and profitability. The program will help businesses to gain accessibility to affordable high-speed connectivity. A \$200,000 **connectkentucky** project was approved by KEDFA for Bowling Green and a \$100,000 project for the eBusiness Strategy and Policy Group also in Bowling Green was approved. A \$150,000 CITE project was approved for the Rural Broadband Initiative for Wayne County.

Kentucky Cancer Experimental Therapy Program - This project is a collaborative initiative of the Lucille Parker Markey Cancer Center/University of Kentucky and the James Graham Brown Cancer Center/University of Louisville. The project is aimed toward the development and commercialization of promising intellectual properties (drugs, biologicals, etc., as well as novel formulations and delivery modalities) directed against the major forms of cancer. The creation of strong experimental therapeutics programs at UK and the U of L will allow both institutions to play important roles in the development of the next generation of more effective and less toxic drugs. \$4 million was committed to the project.

Kentucky Consortium for Energy and the Environment - The Kentucky Consortium for Energy and the Environment is comprised of Murray State University, the University of Kentucky, the University of Louisville, and the Kentucky Community and Technical College System (KCTCS). The mission of the Consortium is to support applied research on energy and environmental matters in Kentucky. These include, but are not limited to, recovery of coalbed methane from Eastern and Western coalfields; production of biodiesel from renewable resources; and development of a depleted uranium battery. These projects represent significant opportunities for development of new technologies, securing additional funding from public and private sources, commercialization, and creating new jobs. KEDFA has approved \$2,400,000 toward the project.

Natural Products - Kentucky has the opportunity to play a key role in the emergence of a \$119 billion and growing industry. The natural products industry encompasses a portion of the pharmaceutical industry and the entire nutraceutical, functional food and ag-biotech industries. Kentucky has the opportunity to leverage the experience of its agricultural, medical, academic and business communities to play a defining role in this growing industry. The Office for the New Economy was instrumental in the creation of the Kentucky Natural Products Fund. The Fund will make investments in seed stage natural products companies that have defensible intellectual property, are developing innovative products with broad market appeal, have or can attract experienced management and are located in Kentucky. The Fund will generally require a 2 to 1 matching funds of any funds it invests. \$5 million was committed to this project.

Northern Kentucky New Economy Marketing Plan – Northern Kentucky TRI-ED launched an extensive marketing research and implementation program to attract targeted New Economy industries to Northern Kentucky (Boone, Kenton and Campbell counties) and to encourage the retention and expansion of existing industries in Northern Kentucky embracing New Economy characteristics. KEDFA approved \$150,000 toward the project.

Public Safety and Security Institute for Technology (PSI*TEC) – The institute will be housed in the Justice and Safety Center, College of Justice and Safety, at Eastern Kentucky University but through its partnerships will be distributed throughout the state. The purpose of this Institute is to fund public safety and security technology transfer projects that add commercial value to recent interest in safety and security. This focus on public safety and security technology will establish Kentucky as an international leader in this field, and have the potential of attracting a federal research initiative to the Commonwealth. The KEDFA funds will be used to support public safety and security technology projects in the area of Agro-Terrorism, Bio-Terrorism and Homeland Security.

Kentucky Investment Fund Act (KIFA) New Economy Projects - 2003

Vital Venture Capital Fund I

Proposed Investment Fund Amount: \$75,000,000

Tax credits awarded \$1,000,000

Vital Venture Capital Fund I proposes the creation of a \$75,000,000 fund. The fund is targeting investments in early stage, first round, second round and third round companies that are in the life sciences sector (including biotechnology and medical devices) located in Kentucky and its surrounding states.

Yearling Fund I, LP

Proposed Investment Fund Amount: \$10,000,000

Tax credits awarded \$790,000

The Yearling Fund I, LP proposes to create a \$10,000,000 fund. The fund plans to invest in equity securities of privately owned, early stage businesses located in Kentucky, Indiana, Ohio and Tennessee. The fund will also invest in some expansion companies and may invest in buy-outs. The fund expects to focus principally on promising companies engaged in healthcare, information technology, communications, business services, and other industrial or consumer businesses.

Department for Business Development

The Department for Business Development is made up of the Commissioner's Office, the Industrial Development Division and the Division of Site Evaluation/GIS. Business Development also has oversight over the Far East Representative Office and the European Representative Office. The primary responsibility of this department is the recruitment of new business and industry into Kentucky. The department works closely with other departments, both within and outside the Cabinet, to accumulate and disseminate information that businesses need when selecting a new location. The recruitment process is highly competitive and typically multiple states are under consideration for a company's investment. The department also employs a number of marketing methods to supplement its recruiting efforts. Advertisements, trade show participation, direct mail campaigns and visits to prospective clients/location consultants are some of the strategies applied in an effort to create more and better opportunities for Kentuckians.

The **Industrial Development Division** recruits and has direct interaction with companies interested in establishing a new business location in Kentucky. These companies are considering large investments in land, building and equipment for the first time in Kentucky or for an additional Kentucky location.

Recruited client companies are both from within the United States and other countries. These global efforts are strongly supported by the offices in Tokyo, Japan and Brussels, Belgium. They represent a wide variety of sectors including, but not limited to, manufacturing, corporate/divisional headquarters, back office operations, e-commerce and distribution centers.

Major Location Announcements

During 2003, new location announcements resulted in total capital investments of more than \$661.45 million and 5,655 new jobs in Kentucky. Thirty-six of those announcements were for manufacturing operations, and represent 4,012 new jobs with investments of over \$478.85 million. Sixteen announcements were from supportive/service operations, that created 1,643 new jobs and investments of over \$182.60 million.

AGI Polymatrix, a **MeadWestvaco** company, has established a facility to manufacture DVD cases in Elizabethtown and will employ up to 300 people. The 190,000 square foot facility represents a \$53 million investment by the company.

Cosma International Group of Magna International, Inc., an internationally known auto parts company will purchase 125 acres in Bowling Green's Transpark where the company will construct a 900,000 square foot facility for the production of automotive frames. Total investment will be \$212 million and employment of 1,100 people.

FedEx Ground Support Systems will construct a 335,000 square foot distribution facility on a 96-acre site in Boone County. The new facility represents an investment of approximately \$50 million and will begin operation mid-2005 creating up to 93 full-time jobs. At full capacity, the new hub will process up to 45,000 packages per hour and could employ more than 235 office and clerical employees and 1,300 package handlers.

Institutional Distributors, Inc., a broadline food distributor will open a 300,000 square foot facility in Shepherdsville in 2006 investing \$75 million in the 284-employee operation.

Kobe Steel Ltd. will build a 108,000 square foot building for the production of automotive suspension parts in Bowling Green. Construction will begin in the fall of 2003 and the plant will be operational by May 2005. The project represents an investment of \$35.6 million and 78 jobs. A joint venture between **Kobe Steel, Mitusi & Co.**, and **Toyota Tsusho Corporation** the company will be called **Kobe Aluminum Automotive Products, LLC**.

Kyosan Denki America, Inc., and **DENSO International America, Inc.**, announced plans to establish a North American manufacturing company in Mt. Sterling to produce automotive components such as fuel pump modules, fuel filters, and fuel systems for North American car manufacturers. The new company, **Kyosan DENSO Manufacturing Kentucky, LLC (KDMK)**, will employ 187 people and invest \$12.3 million. KDMK purchased an existing 46,000 square foot facility, and plans to be fully operational by February 2004.

Paris Packaging announced a new manufacturing facility to produce packaging for the food industry. The plant will employ 140 persons in Hopkinsville and the company plans to invest over \$6 million.

Plastech Engineered Products will open a second plant in Louisville and will operate under the same name, **Plastech Exterior Systems, Inc.** producing plastic exterior automotive parts. The investment represents \$78 million and 425 jobs.

Republic Airlines will establish a nearly 54,000 square foot corporate headquarters, crew base and maintenance facility employing 355 at Louisville's International Airport and investing \$27,250,000. They will fly 50 passenger jets as a US Airways Express Carrier. Completion of the facility is expected in Fall 2004 and will have 20 aircraft operational at that time.

Simba USA, LLC is an Australian company opening its first U.S. operation in Morehead, Kentucky. The company's \$9.5 million investment includes a 25,000 square foot facility and employment of about 65 people within five years. **Simba** has developed and patented (pending) a unique process to economically produce single-run personalized homeware products. The company brings this new technology to the Commonwealth to meet the needs of corporate merchandise clients and branded licensed merchandise and direct Internet sales.

Toyoda Boshoku (d.b.a. **Toyodabo Manufacturing Kentucky LLC**) selected Lebanon as the site for their new molded headliners manufacturing facility. The project represents an investment of \$10 million with construction of a 65,000 square foot facility and employment of 26 people beginning in August 2004.

The **Division of Site Evaluation/GIS** maintains the central clearinghouse of available site and building information for the Commonwealth. This includes GIS-based industrial site maps (topographic and aerial) as well as site and building data sheets. The Division works with local and regional organizations to share information, reduce redundancy and insure a consistent marketing message throughout the Commonwealth, which includes assisting local economic development agencies with the design and implementation of economic development web sites. Other services include providing graphical design, print shop and other marketing material for the Cabinet, the Governor's Office and other state agencies and developing customized, project-specific web sites for industrial development projects. The Division developed and maintains information systems necessary to the Cabinet's business. Systems developed thus far include sites and buildings, detailed community information and a business and industry information system that tracks existing businesses, locations & expansions as well as closings.

The **Division of Site Evaluation/GIS** had several accomplishments during 2003 including assisting 16 communities in building local-level web sites as well as assisting with data linking for 18 additional communities saving them time and money while providing a consistent marketing message between the state and local level, and building 53 customized, project-specific web sites. Over 400 industrial site maps were updated statewide and there were 285 revisions and updates made to available buildings. Staff added a clickable location map to site and building search result tables and created the Europe (Brussels's Office) web site linked to the thinkkentucky.com site. (www.KentuckyEurope.com)

Department of Community Development

The Department of Community Development is organized to interact with existing business and industry, support small and minority businesses, encourage exports, and assist community preparation for participating in the economic development process. The Department includes six divisions and their various programs: Small & Minority Business, Business and Entrepreneurship, International Trade, and the three Regional Offices – the Western Kentucky Division, the Central Kentucky Division, and the Eastern Kentucky Division.

The Department's three Regional Offices, based in Prestonsburg, Frankfort, and Madisonville, bear primary responsibility for the Cabinet's work with existing and start-up businesses. This mission to retain existing jobs and create new jobs is accomplished through direct contact with businesses and community leaders across the Commonwealth. During 2003 these three offices accounted for 2,995 business contacts and assisted in 79 expansion projects. These projects are expected to result in total capital investment of more than \$491 million, creating 3,813 new jobs and retaining 675 existing jobs. Additionally, 13 new business start-ups are projected to create 914 new jobs, with a total capital investment of more than \$75 million.

Major Expansion Announcements

Three hundred and five expansion projects announced during 2003 resulted in more than \$905.42 million in total capital investments and 8,151 new jobs in Kentucky. Two hundred and twenty-nine of those expansions were from manufacturing operations, and represent 4,747 new jobs with investments of over \$667.98 million. Seventy-six announcements were from supportive/service operations that added 3,404 new jobs and investments of over \$237.44 million.

Briggs and Stratton, the world's largest producer of air-cooled gasoline engines for outdoor power equipment, is expanding the company's Murray, Calloway County, Kentucky lawn mower engine plant by adding 98 new jobs and making a \$6.1 million capital investment.

First Residential Mortgage Network, Inc. (FRM) one of the nation's leaders in the mortgage-banking industry founded in 1995 is expanding its Louisville, Kentucky internet mortgage loan center with an \$874,800 investment creating up to 156 new jobs.

Harman/Becker Automotive Systems manufactures analog audio automotive equipment at its Simpson County operation. This expansion will enable the company to add the production of digital audio equipment, creating 100 new jobs. The \$11 million project includes the addition of 45,000 square feet to the existing facility.

Huish Detergents produces private-label detergents and household cleaning products at its manufacturing facility in Warren County. The company will expand through the construction of a 500,000 square foot warehouse and distribution center creating 130 new jobs with the \$36 million project.

KES Acquisition Company LLC plans to acquire the inactive Kentucky Electric Steel facility in Boyd County and restart the production of special bar quality steel products. The total investment of \$4.7 million is expected to create 250 new jobs.

Noveon, a producer of carbopol polymers, will upgrade the production technology at its facility in Calvert City. The \$18 million project will retain 87 existing jobs and create 9 new jobs.

Omnicare Inc., a leading pharmaceutical services company, will expand its corporate headquarters in Kenton County. The \$4.1 million project will include 56,235 square feet of office space and create 160 new jobs.

Outdoor Venture Corporation (OVC) located in Stearns, McCreary County, Kentucky is expanding their manufacturing facility with a \$650,000 investment creating 100 new jobs. OVC manufactures modular tents for the U.S. Department of Defense. The company began as a tent maker for the family recreation market in 1972.

Semicon Associates one of two U.S. producers of dispenser cathodes used to power communication systems in the F-15 and F18 fighter aircraft as well as smart missiles, and the Aegis destroyer is expanding their Lexington facility with an investment of almost \$12 million and the addition of 72 new jobs.

Ticona Polymers, a producer of acetyl polymers, liquid crystal and fiber thermoplastics will add a regional headquarters and research facility adjacent to its production facility in Boone County. The 122,600 square foot facility will cost \$41 million and create 150 new jobs.

Toyota Motor Manufacturing North America Inc. announced plans for a \$15.6 million expansion at its U.S. headquarters in Erlanger, Ky. The plan calls for a 98,400-square-foot expansion of the company's quality and production engineering laboratory. The investment will result in the creation of 50 jobs during the next two years.

Toyotetsu Mid America broke ground on its Owensboro, Kentucky facility in August 2001 and continues to expand. The latest expansion for the automotive metal parts manufacturing facility consists of an \$11.7 million capital investment and the creation of 125 new jobs.

Community Programs

As part of its ongoing partnership with the Kentucky Industrial Development Council (KIDC), the Cabinet assisted in holding one-day workshops on the economic development process. The workshops are directed to basic education for local elected officials and development board volunteers. In 2003, more than 150 persons attended the workshops held at Pine Mountain State Park, Lawrenceburg, Pikeville, Radcliff, Kentucky Dam Village, and Maysville.

KIDC and the Cabinet also perform community assessments to help direct the efforts of selected local economic development programs. A two-day program is held in each community, utilizing a volunteer team of evaluators to examine local resources and a consultant to facilitate discussion sessions with local leaders. A formal report, outlining specific action steps and timelines, is provided to the community following the visit. During 2003, community assessment programs were held in Pike, Pendleton, and Owen Counties.

The Cabinet's Business Retention & Expansion (BR&E) program is centered on a series of interviews with key local businesses to gain their insight into the community's environment for nurturing business growth. The extension service programs of the University of Kentucky and Kentucky State University are key partners, providing survey analysis and report writing for each community effort. During 2003, BR&E programs were completed in Warren, Lyon, and Caldwell Counties.

International Trade

Building on Kentucky's continuing export growth, which exceeded \$10 billion in 2002, the International Trade Division represented the Cabinet in hosting foreign officials and business

delegations from Chile, Russia, China, Japan, Panama, United Kingdom, Ecuador and Hong Kong. In April 2003, Her Royal Highness Princess Anne visited Kentucky to officially open the Kentucky Horse Park's "All the Queen's Horses" Exhibits. A luncheon of over 400 business people was held in her honor to celebrate the unique commercial relationship between the United States and the United Kingdom.

The Kentucky Agricultural and Commercial Trade Office (KACTO) in Mexico led participation by Kentucky businesses in several successful events, including Enviro-Pro 2003, an environmental trade show, for the fifth consecutive year, and a Trade Mission to Central Mexico's Automotive Clusters, sponsored by the U.S. Department of Commerce. KACTO assisted the Kentucky Thoroughbred Owners & Breeders with its second Kentucky Thoroughbred Training Seminar in Mexico City. As of 2003, more than \$5 million in Kentucky horses have been exported to Mexico.

The Kentucky South America Trade Office (KSATO) facilitated the participation of 21 Kentucky companies in the Growth Industries 2003 Catalog Show, a 7-city, 4-country event. KSATO incurred all costs and coordinated the Kentucky effort, which resulted in the identification of more than 200 trade leads for the participating companies.

KSATO also coordinated the first visit to Chile by representatives of the Kentucky Thoroughbred Association and Kentucky Thoroughbred Owners & Breeders, Inc. As a result of this visit, Chilean agents purchased 22 horses, and future marketing opportunities were identified.

Entrepreneurship

The Department of Community Development offers a variety of programs to support entrepreneurship and small business development through the efforts of a pair of divisional offices.

The Small and Minority Business Division offers advice on business start-up and planning activities. During 2003, a total of 1,983 inquiries for business assistance were handled, including 802 by direct counseling. Business planning materials placed on the Cabinet's web site generated a total of 81,470 hits, including 4,858 downloads of a guide to business planning and 3,496 downloads of companion guides to marketing. The "Entrepreneur Resource Navigator" tool was added to the Cabinet's web site, allowing businesspersons anywhere in the Commonwealth to locate technical and financial service providers in close proximity to their business location.

The Division of Business and Entrepreneurship includes the Business Information Clearinghouse, the Kentucky Procurement Assistance Program, and the Commonwealth Alliance Program.

During 2003, the Business Information Clearinghouse responded to 19,801 hot-line calls for informational assistance. Information packets were sent to 2,992 callers.

The Procurement Assistance Program has an active client base of 1,692 firms, which has reported a total of more than \$86 million in government contracts obtained during 2003. This program has also held 27 training events and provided 1,622 one-on-one counseling sessions.

The Alliance Program distributed 121 copies of The Alliance Primer, a 150-page guide to alliance formation. During 2002, the program conducted 16 workshops, held 91 one-on-one counseling meetings, and provided 20 in-depth consulting sessions to business clients.

Department of Financial Incentives

The **Department of Financial Incentives** (DFI) coordinates all financial assistance, tax credit and related programs available to business and industry. The Department is comprised of four divisions: Grant Programs Division, Direct Loan Programs Division, Tax Incentive Programs Division, and Program Servicing Division. Additionally, the Bluegrass State Skills Corporation (BSSC) is attached to the department. The employees of the Department also serve as staff to the Kentucky Economic Development Finance Authority (KEDFA), the Bluegrass Skills Corporation Board, and the Enterprise Zone Authority of Kentucky.

Bluegrass State Skills Corporation (BSSC)

The Bluegrass State Skills Corporation (BSSC) awarded grants totaling \$2,892,097.43 to fund 150 projects to 122 Kentucky companies in 2003. BSSC also approved 13 training consortia projects for funding, totaling \$592,276.50. The BSSC Skills Training Investment Credit Program provided \$2,213,326.99 in tax credits for 42 projects in 2003.

Economic Development Bond Program (EDB)

The Economic Development Bond Program (EDB) approved funding for the purchase and development of an industrial park in the amount of \$5,000,000 to the Purchase Area Regional Industrial Authority, Inc., in Graves County during the calendar year 2003. In addition, the program made bond funds available to three different projects across the state totaling \$518,000. Kentucky Economic Development Authority authorized the issuance of \$215,540,000 in industrial revenue bonds for six projects during 2003.

Kentucky Economic Development Finance Authority (KEDFA)

The Kentucky Economic Development Finance Authority (KEDFA) approved a total of \$3,869,260 in direct loans to 3 different borrowers in 2003. The loans were made to new businesses coming into the state and to local industrial development authorities. The loans will help create at least 175 new jobs in Kentucky over the next two years.

Kentucky Economic Opportunity Zone Act (KEOZ)

The Kentucky Economic Opportunity Zone Act (KEOZ) provides tax credits to companies that establish new or expand existing manufacturing, service or technology operations in a qualified zone. Qualified zones are located in areas with high unemployment and poverty levels. There are five (5) communities and twenty-nine (29) KREDA qualified counties as of the end of 2003. KEDFA has approved five (5) projects totaling \$3,994,027 for service and technology companies in Floyd, Hardin, Lincoln, and Pulaski counties, and one manufacturing project in Fulton County in the amount of \$300,000.

Kentucky Industrial Development Act (KIDA)

With assistance from the Kentucky Industrial Development Act (KIDA) program 53 companies expanded or located new operations within the state during the period of January 1, 2003 through December 31, 2003. These 53 companies are anticipated to invest approximately \$625 million and create 3,533 new jobs. An additional 30 companies completed their KIDA transactions during the same period resulting in 3,464 new jobs and private investment of approximately \$821 million.

Kentucky Industrial Revitalization Act (KIRA)

Two companies received final approval under the KIRA program resulting in the retention of 932 jobs that would have been eliminated absent the use of these incentives. Approximately \$102

million in private capital was invested to stabilize the economic condition of the two facilities assisted through the authorization of \$22 million in KIRA incentives. One company received a preliminary approval that will result in the retention of 75 jobs and \$18 million in private investment.

Kentucky Jobs Development Act (KJDA)

For the period of January 1, 2003 through December 31, 2003, 35 companies received preliminary approval for incentives under the KJDA program. These projects are anticipated to create 3,254 new jobs with average annual wages of \$46,813 and will involve private expenditures of \$254 million. Additionally, 25 companies received final approval under the program generating 1,815 new jobs with \$38,376 in average annual wages. These 25 projects will bring approximately \$169 million in private expenditures over the ten-year life of the KJDA transactions.

Kentucky Rural Economic Development Act (KREDA)

A total of 32 companies received preliminary approval under the Kentucky Rural Economic Development Act (KREDA) program from January 1, 2003 through December 31, 2003. These 32 companies are anticipated to invest approximately \$269 million and create 2,482 new jobs in Kentucky's higher unemployment counties. During the same period, 24 companies finalized their KREDA transactions resulting in new private investment of \$161 million and the creation of 1,750 jobs.

Tax Increment Financing (TIF)

KEDFA approved its first project under the newly established TIF infrastructure development program for a project being undertaken by the Inter-Modal Transportation Authority, Inc. The Kentucky Transpark is to be located in northern Warren County and received approval under a master agreement for \$6.3 million in incremental state taxes over a 20-year period.

Department For Regional Development

The Department for Regional Development (DRD) administers the Local Government Economic Development Fund (LGEDF). LGEDF was established to diversify the economy of the state's coal producing regions, which include some of the Commonwealth's poorest counties. KEDFA approved ten LGEDF projects during calendar 2003. The grants total \$4.27 million and were designated for engineering, infrastructure, acquisition, speculative building construction or improvement, industrial park maintenance and a natural gas study.

DRD's attention has changed this year from a focus on development of regional industrial parks, single county parks and spec buildings to marketing, management and maintenance of existing parks. Since the beginning of the LGEDF program it has been used to substantially complete nine industrial parks, which encompass over 3900 acres. Land for a tenth park was acquired this year that will provide an additional 500 acres. Two other locations have been investigated this year.

Twenty-three single county parks have been supported in their development to some extent since the initiation of the LGEDF and they include over 1100 acres.

Marketing efforts so far have placed 13 companies with a total of 4270 jobs projected for creation in the regional parks. The following companies announced locations for 2003:

Columbia Sportswear celebrated their groundbreaking on September 23, 2003 at the Four Star Regional Industrial Park in Henderson and Webster Counties. The Oregon company purchased approximately 90 acres in and adjacent to the 4-Star Park for this new distribution facility. LGEDF committed \$1 million to the project, which will be used, along with federal funds for road, water and sewer. Columbia has committed to create eighty-seven new jobs at the completion of their facility and is expected to reach employment of 400 eventually.

CTA Acoustics relocated from their burned facility in Laurel County to the Southeast Regional Industrial Park. While no new LGEDF was committed to the project, DRD worked with the company to provide the arrangements they needed at Southeast. They received assistance from KREDA. CTA proposes to invest over \$56.8 million in the project and employ 650.

Ritatsu bought acreage and optioned extra acreage and located in the Bluegrass Crossings Regional Business Centre. The company proposes to invest \$3.1 million in the project and employ 30.

Simba USA, LLC purchased acreage and located in MMRC Regional Industrial Park. Simba plans to invest \$9.56 million in the project and employ 65.

The Department also accomplished the following in 2003:

Local Official LGEDF Workshop was conducted in January of 2003 for LGEDF eligible counties at Jenny Wiley State Park. DRD solicited the assistance of the Department for Local Government, East Kentucky Corporation and the Coal County Coalition. The attendance of newly elected county judge/executives was excellent and many incumbents attended as well. The attendance was about 100 persons. New program guideline books were distributed.

Regional Industrial Park Web Site Development is a project undertaken by Pine Mountain Regional Industrial Authority with the involvement, assistance and direction of DRD in order to provide information to prospective clients about Kentucky's ten regional industrial parks. It is a well-known fact that industrial clients or their agents search the Web before directly contacting agencies. These sites provide all the basic information a client would need to know and the name of someone to contact. The sites were created with a requirement of making them simple, straightforward and user friendly. DRD looks forward to measuring their effectiveness in the coming year.

Department of Administration and Support

The **Department of Administration and Support** provides Cabinet-wide support in the areas of information resources, fiscal management, budgetary implementation and control, personnel support, and research services. The Department consists of the Office of Information Resources, the Division of Administrative Services and the Division of Research.

The **Division of Administrative Services** provides financial data and personnel management services; prepares and manages the Cabinet budget; and maintains adequate records for the Cabinet's activities. Services are provided through the **Fiscal Management Branch** and the **Personnel and Payroll Branch**.

The **Division of Research** conducts research and provides information and analytical services to support economic development in Kentucky. The Division supports economic development activities in Kentucky by compiling, maintaining, supplying, and analyzing economic, demographic, and business information on a wide variety of topics for Cabinet staff, prospective business clients, local and regional economic developers, other government agencies, and the general public.

The **Division of Research** completed 341 major data projects and responded to 1,592 general data requests for calendar year 2003, and developed several new publications for use by state and local economic developers. Industry profiles for the machine tools and plastics industries were developed and added to the Cabinet's web site. The division published "**A Primer on Local Economic Development Organizations in Kentucky**", for use in assisting local community development efforts. The Research Division developed a new web page devoted to Kentucky's quality of life resources and began preparing company profiles on location and expansion clients for internal business intelligence use in 2003.

The **Office of Information Resources** provides Cabinetwide support for all infrastructure components such as computer hardware and operating systems, network servers, network components and communications, computer virus protection and data backup. Also the Office provides web application development/maintenance and application program development/maintenance services.

The **Office of Information Resources** implemented new firewall and virus protection software, upgraded some of our network servers and modified the Cabinet's web site to be ADA compliant. The Office also developed new applications for KPAP to allow customers to enter KPAP application information over the Internet and developed the Entrepreneur Resource Navigation web site for the Small and Minority Business Division to assist small business entrepreneurs.

Kentucky Strategic Plan For Economic Development

In 1992 the Kentucky General Assembly enacted HB 89 to provide for continuity and stability in the state's economic development system, professionalism in the leadership of the primary state economic development agency, and long-range planning to meet the demands of a competitive global economy. HB 89 mandates the preparation of a state strategic plan for economic development and the creation of the Kentucky Economic Development Partnership. The Partnership is responsible for directing and overseeing the Cabinet for Economic Development and adopting a Strategic Plan.

The Partnership sought broad-based input and participation of public and private individuals and organizations, resulting in the adoption of the first Kentucky Strategic Plan for Economic Development in May 1994. Public/private sector cooperation remains a driving force in realizing a common mission, "To create more and higher quality opportunities for all Kentuckians by building an expanding sustainable economy."

The Plan was revised in 1997 to reflect 20 completed tactics and new tactics that were needed to accommodate emerging possibilities and priorities. The Partnership updated the Kentucky Strategic Plan for Economic Development for 2002-2006, to meet legislative requirements for strategic planning adopted by the 2000 Kentucky General Assembly. A revised strategic plan was submitted with the biennial budget request in November 2003, as required by law. To obtain a copy of the latest Kentucky Strategic Plan for Economic Development go to the Cabinet's web site at www.thinkkentucky.com or send an e-mail request to econdev@mail.state.ky.us.

2003 Accomplishments

Kentucky Strategic Plan for Economic Development

Objective 3.7 Evaluate adding foreign language versions of the Cabinet's web site

A welcome page was added for foreign visitors to the Cabinet's web site. The welcome for foreign visitors can be accessed from the home page of the web site.

Objective 4.1. Review multi-county strategic planning for economic development, including those for metropolitan areas which cross state borders, to determine appropriate state participation in the implementation and promotion of regional efforts

Copies of nine multi-county strategic plans currently in use were identified and obtained. Most of the multi-county strategic planning efforts generally lack a comprehensive approach and long-term commitment by participating communities. Additional Cabinet efforts are being pursued to develop a more active practice of strategic planning, with the promotion of examples of multi-county cooperation via workshops and a "best practice" publication.

Objective 4.2. Actively support communities in preparing and implementing comprehensive local and multi-county economic development plans

Copies of 48 various plan documents were obtained and reviewed with regard to content, process and cost of development, ease of implementation, and overall effectiveness. Information from these plans was used in the updating and reformatting of the Economic Development Cabinet's "Community Inventory Questionnaire: Necessary Data for the Local Developer." The improved document will serve as a basis for promoting strategic plan development at the local level. Initial design work has also begun on a handbook to assist communities in the preparation of a strategic plan for economic development. A volunteer community has been identified for a program test, and facilitator training scheduled through a utility partner.

Objective 4.6 Create web-based resource directory for entrepreneurs and business owners to access technical assistance resources available throughout the Commonwealth

The resource directory identifies assistance programs at the state and federal level. Entrepreneurs and business owners can access the resource directory from the Cabinet's web site.

Summary of Legislation - 2003 Kentucky General Assembly

The 2003 Kentucky General Assembly short session produced modest changes affecting programs administered by the Cabinet. The 2003 Session also included passage of a budget bill for FY 03 and FY 04. Passage of HB 510 provides a major new tax credit expansion incentive program aimed at encouraging the retention and expansion of automotive assembly plants located in the state.

SB 91

This bill extends the activation date for KJDA projects from 1 year after final approval to 2 years. KEDFA may grant an extension of 1 year for meeting the criterion of the eligible employees.

SB 93

This legislation reduces the residual amount of coal severance tax money available for Department for Regional Development projects.

HB 269 – Budget Bill

This legislation makes the following appropriations and revenue measures dealing with financing: East Kentucky Corporation funded through single county accounts at \$275,000 for fiscal year 2003-2004; West Kentucky Corporation funded through multi-county accounts and Cabinet budget at \$467,000 for fiscal 2003-2004; Industrial Access Road Fund Account appropriation of \$2,000,000 for fiscal year 2003-2004; KEDFA bond pool funded for \$30,000,000; ED bond pool funded for \$10,000,000; and New Economy Bond pool funded for \$15,000,000. The Wood Products Competitiveness Corporation was not funded.

HB 293

This bill conforms Kentucky laws to the required provisions of the Streamlined Sales and Use Tax Agreement. The agreement provides for common definitions for key terms, simplified and uniform rules for sourcing transactions, simplified administration of exemptions, and implementation of uniform audit procedures for the administration of sales and use taxes. The agreement is designed to make it easier for online and direct sales businesses to collect and remit sales and use taxes among participation states. The bill also provides for an exemption from the motor vehicle usage tax, and sales tax on repair and replacement parts, both for trucks weighing over 44,000 pounds.

HB 510

This bill creates a new program that will allow existing companies who have 1,000 plus employees and are engaged in the assembly of motor vehicles to receive inducements to assist in financing improvements of at least \$100 million. Approved companies will be eligible to receive credits against income and license taxes if the reinvestment project meets the criteria of the act. Approved costs for which credits may be received are limited to 10% of the total eligible reinvestment expenditures. The program will permit motor vehicle manufacturers to strengthen their economic base in the state, encouraging them to reinvest in their facilities and equipment.

Benchmarks

The Kentucky Legislature established in House Bill 89 the requirement that the Kentucky Economic Development Partnership (KEDP), establish objective benchmarks to measure the performance of Kentucky's economy and progress toward achievement of the mission statement, goals, and guiding principles from the *Kentucky Strategic Plan for Economic Development* (KRS 154.10-140). Benchmarks provide measurable indicators on whether Kentucky is keeping pace or falling behind compared to competitor states and the nation and provide an important accountability measure for spending taxpayer dollars on economic development efforts. The six benchmarks below were chosen by the KEDP reflecting Kentucky's lower cost of living as compared to the nation. Kentucky's 2000 overall cost of living index is estimated to be **91.0%** of the U.S. average (*46th lowest* in the U.S. and the District of Columbia)¹.

Kentucky Strategic Plan for Economic Development Benchmarks

	Gross State Product Per Capita (Current \$)	Personal Income Per Capita	Average Wage Per Job	Research and Development Expenditures Per Capita	Poverty Rate	Unemployment Rate
United States	\$ 35,529	\$ 30,832	\$ 35,550	\$ 814	11.3%	6.0%
Kentucky	\$ 29,558	\$ 25,657	\$ 29,256	\$ 214	13.9%	6.2%
Kentucky's Rank	42	40	36	43	43	36
US - Kentucky	\$(5,972)	\$(5,175)	\$(6,294)	\$(600)	2.6%	0.2%
Kentucky as a % of USA	2001	2002	2001	2000	2000	2003
	83.2%	83.2%	82.3%	26.3%	123.0%	103.3%
Kentucky's Targeted Benchmarks as a Percentage of the United States						
2007	86.0%	83.0%	84.0%	35.0%	115.0%	101.0%
2012	88.0%	85.0%	86.0%	55.0%	110.0%	100.0%
2017	90.0%	88.0%	88.0%	75.0%	105.0%	98.0%
2022	92.0%	92.0%	92.0%	92.0%	100.0%	95.0%

Sources: Data derived from information provided by the United States Bureau of Economic Analysis, United States Census Bureau, United States Department of Labor, and the National Science Foundation.

¹ 2000 COL index calculated by the *American Federation of Teachers*. For details, see F. Howard Nelson, "An Interstate Cost-of-Living Index," Educational Evaluation and Policy Analysis, Spring 1991, Vol. 13, pp. 103-111. <http://www.aft.org/research/reports/col/colpape3.htm>. Alaska and Washington, D.C. cost-of-living data are from American Chamber of Commerce Researchers Association (ACCRA).

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